

Overview of the Tennessee Workers' Compensation Market Conditions

Tennessee Workers' Compensation
Advisory Council

August 28, 2008

By: Mike Shinnick

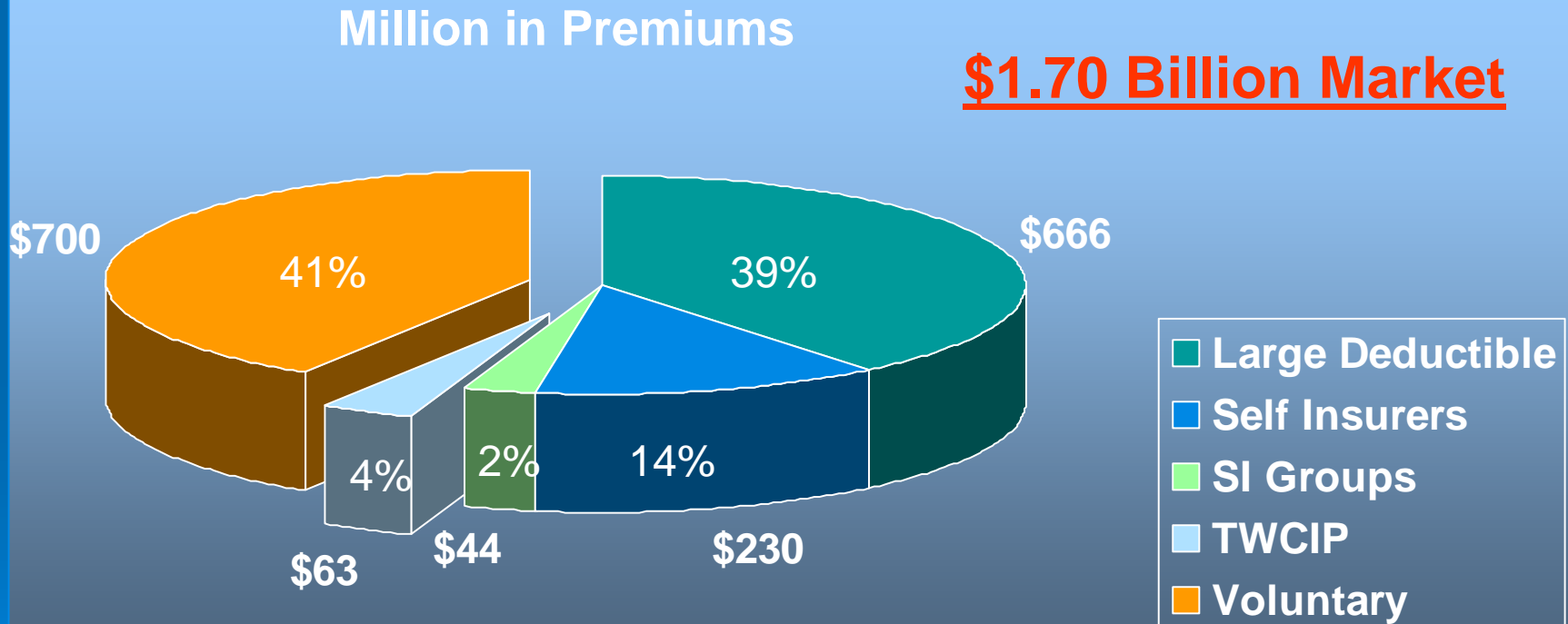
Tennessee Department of Commerce & Insurance

Outline

- Market Segment Changes
- National Picture
- Tennessee Specific
- Assigned Risk Pool
- Self-Insurance
- Update on Company Insolvencies
- Recent Workers' Comp. Rules Filed

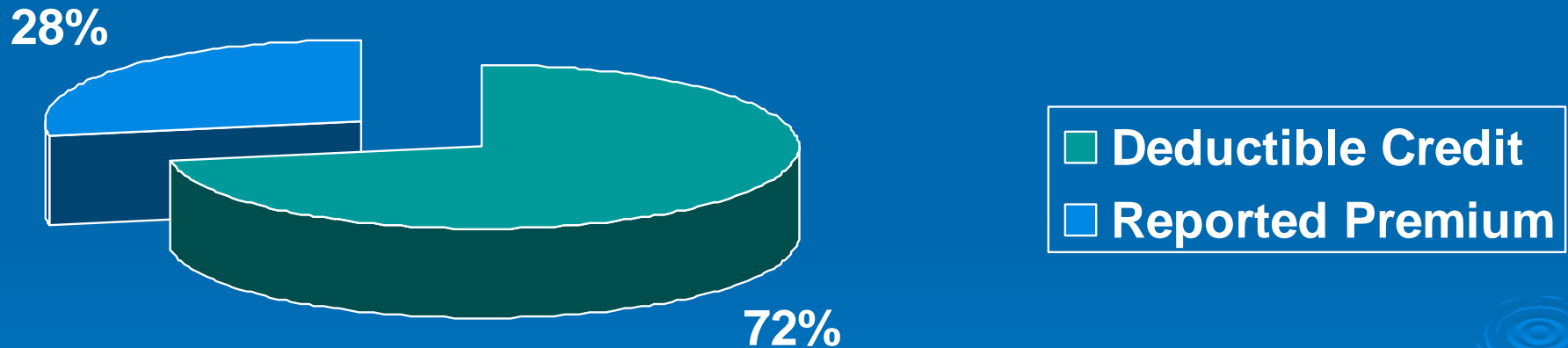
2007 Market Segments

Large Deductibles are represented on a non-credited basis; Self Insureds are on an equivalent basis

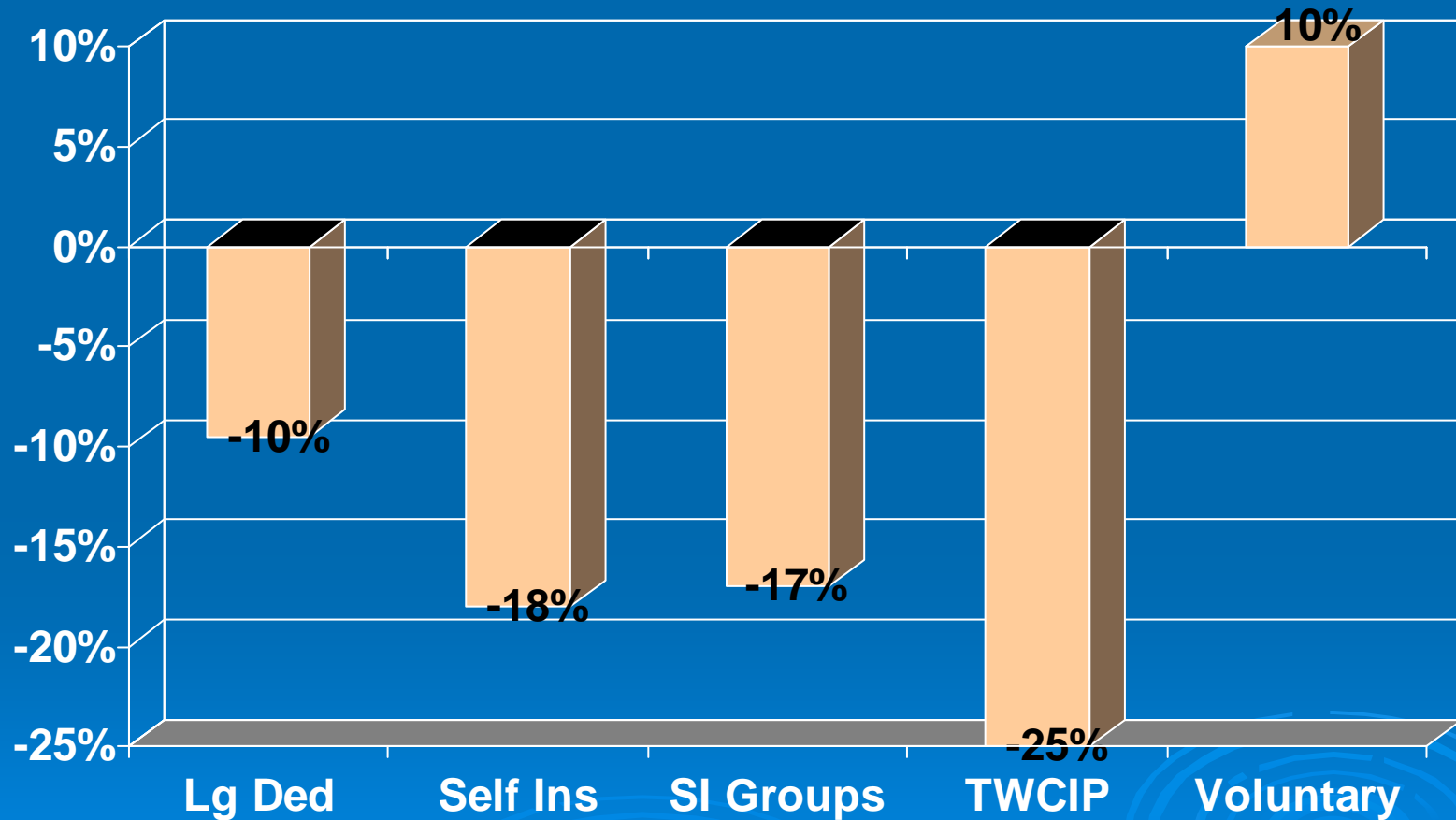


Large Deductible Premium is manual/estimated; SI Groups exclude government groups.

Percentage of Manual Large Deductible Premium Dollars Reported



Premium Change in Market Segments from 2006-2007



National Picture

Another Year of Underwriting Gain

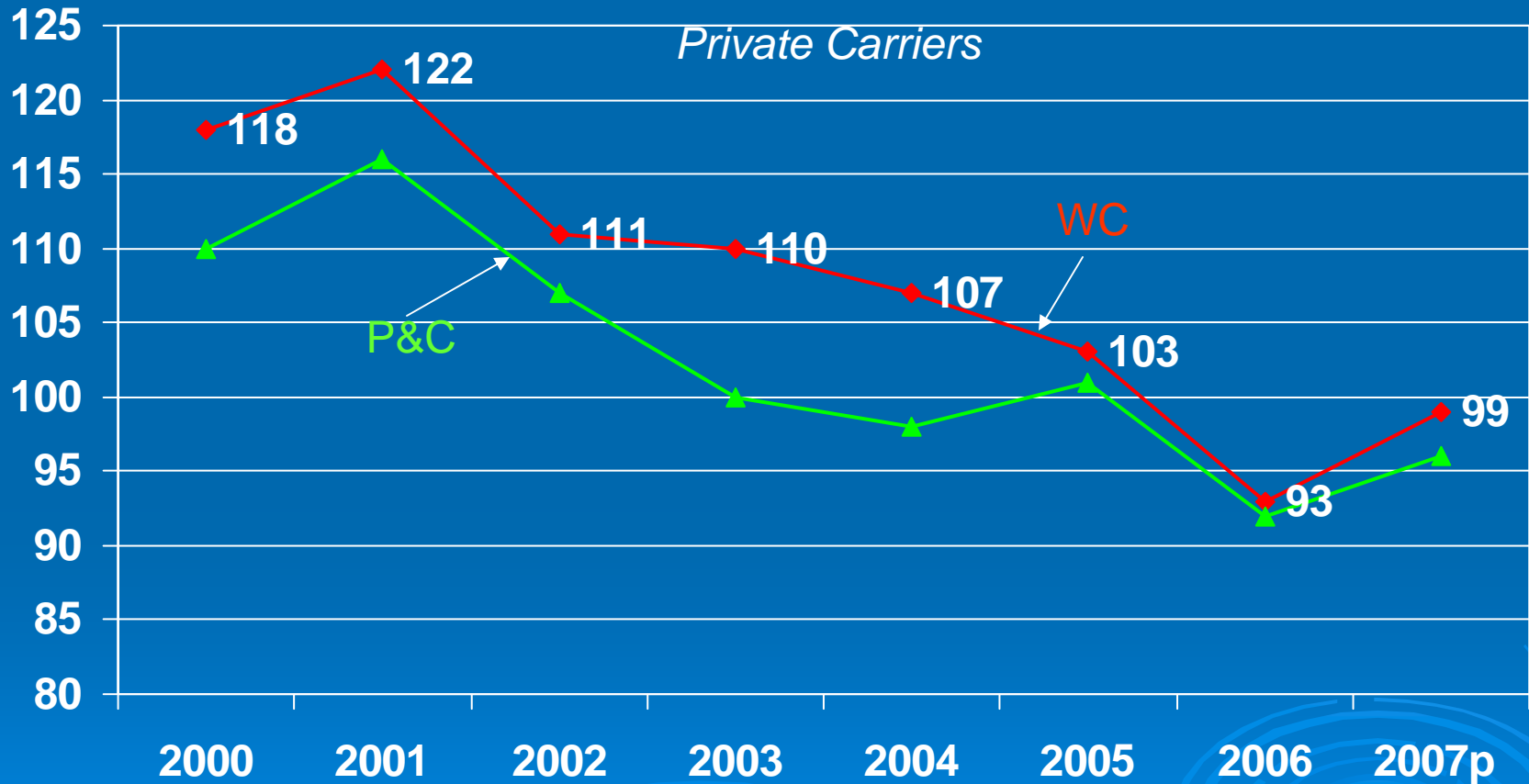
Net Calendar Year Combined Ratio – Private Carriers

Line of Business	2005	2006	2007p
Personal Auto	95%	96%	98%
Homeowners	100%	90%	95%
Com. Multi Peril	97%	93%	94%
Com. Auto	92%	92%	95%
Workers' Comp	103%	93%	99%
Total P&C Industry	101%	92%	96%

Source: Workers' Compensation: NCCI; All Other Lines: Best Preview & ISO; 2007 preliminary

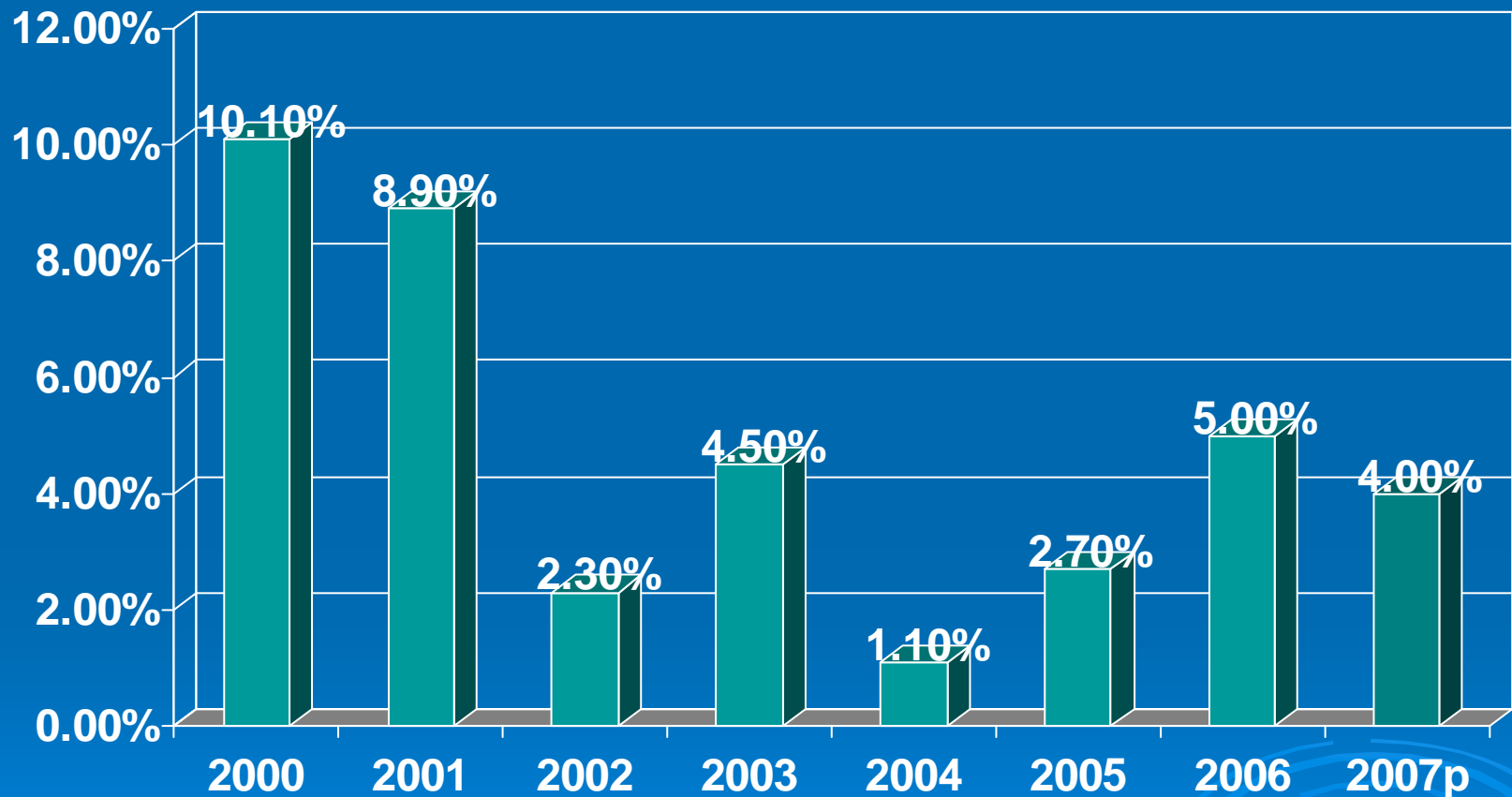
WC and P&C Calendar Year Combined Ratios

WC Consistently Trails Overall P&C Results



Source: NCCI (2007 preliminary); could not find back to back years of underwriting profit over past 30 years

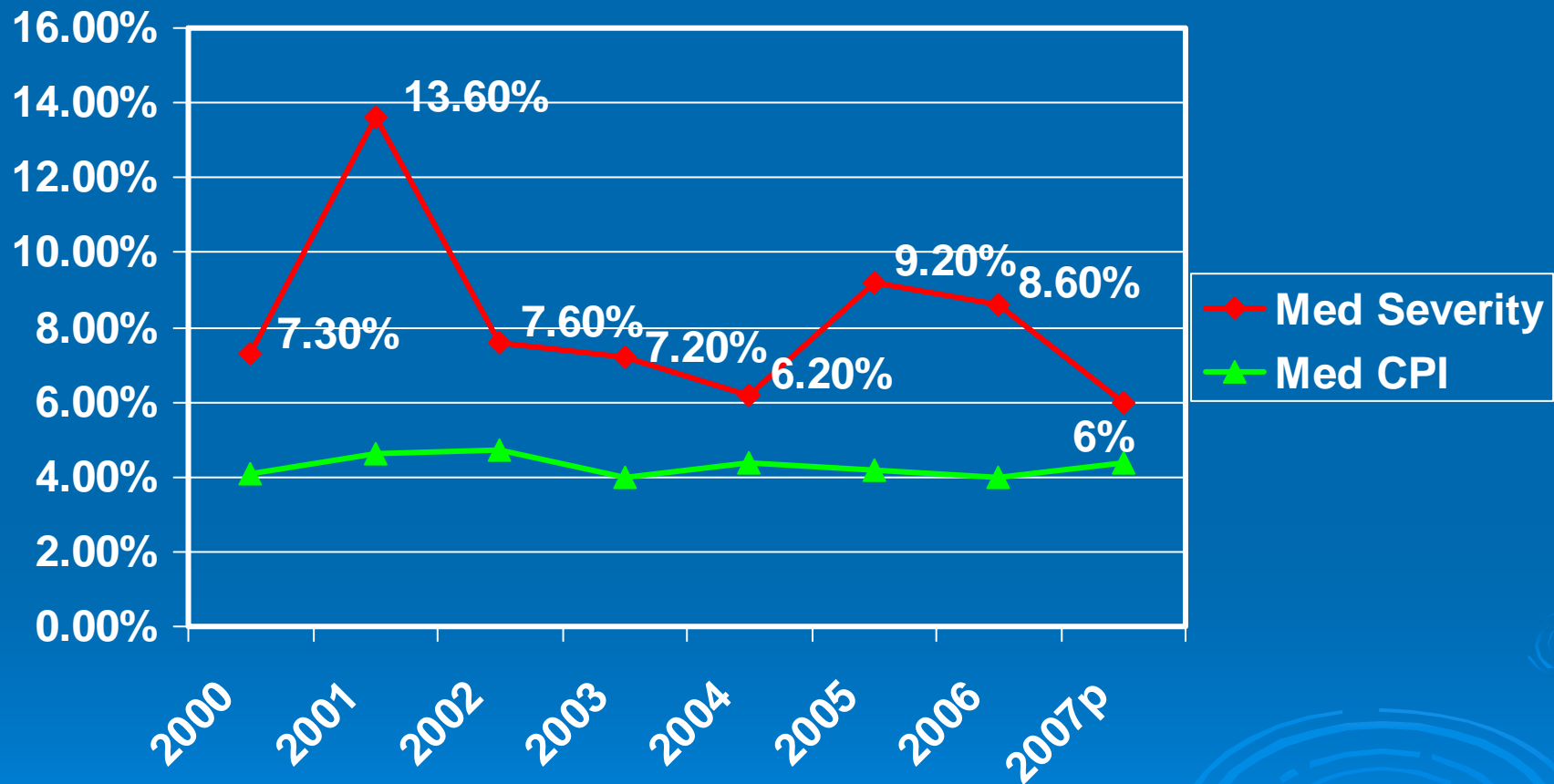
Workers' Compensation Indemnity Claims Cost Increases



Source: NCCI (2007 preliminary)

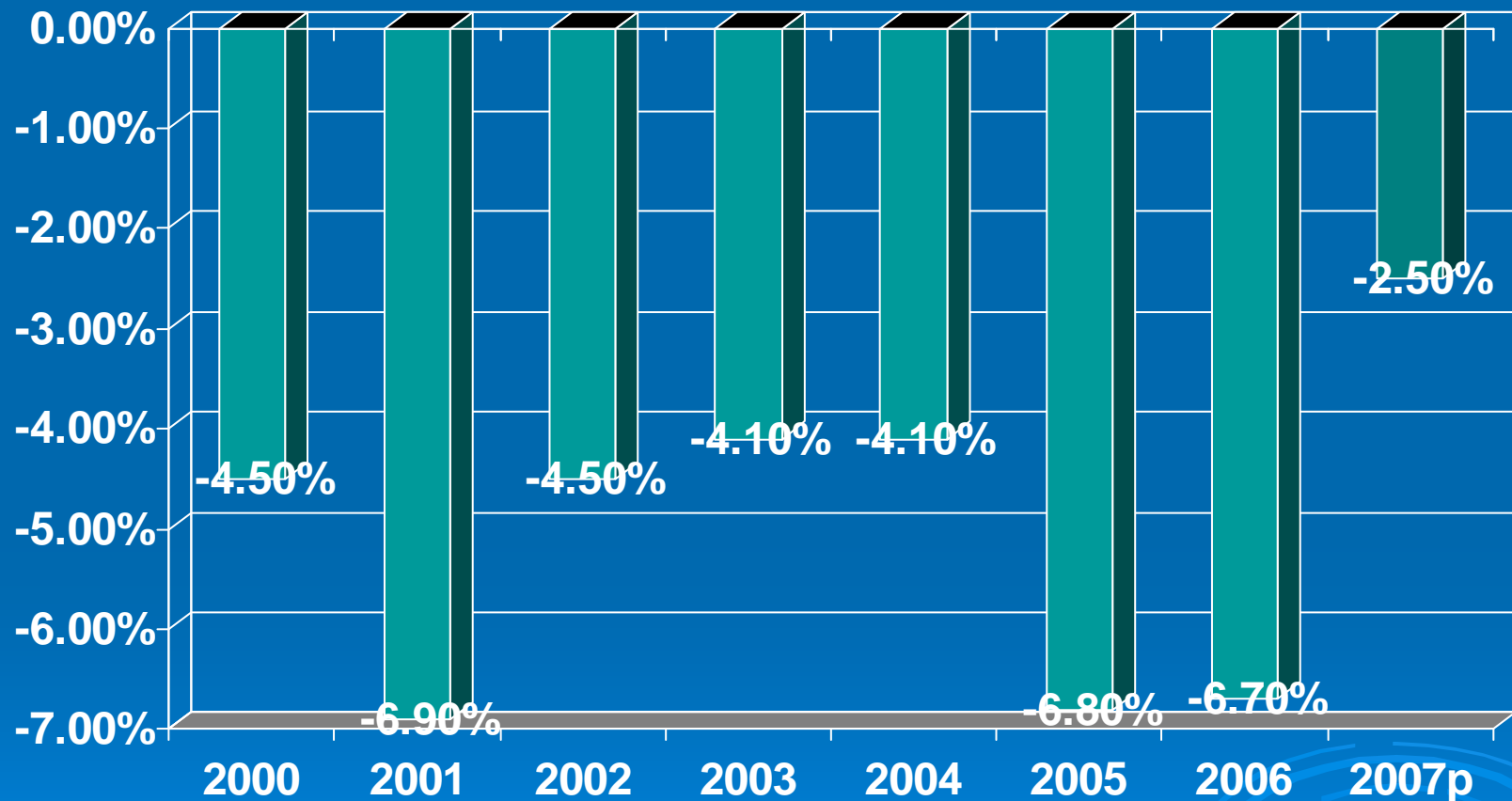
WC Medical Claim Cost Trends

(Lost Time Cases)



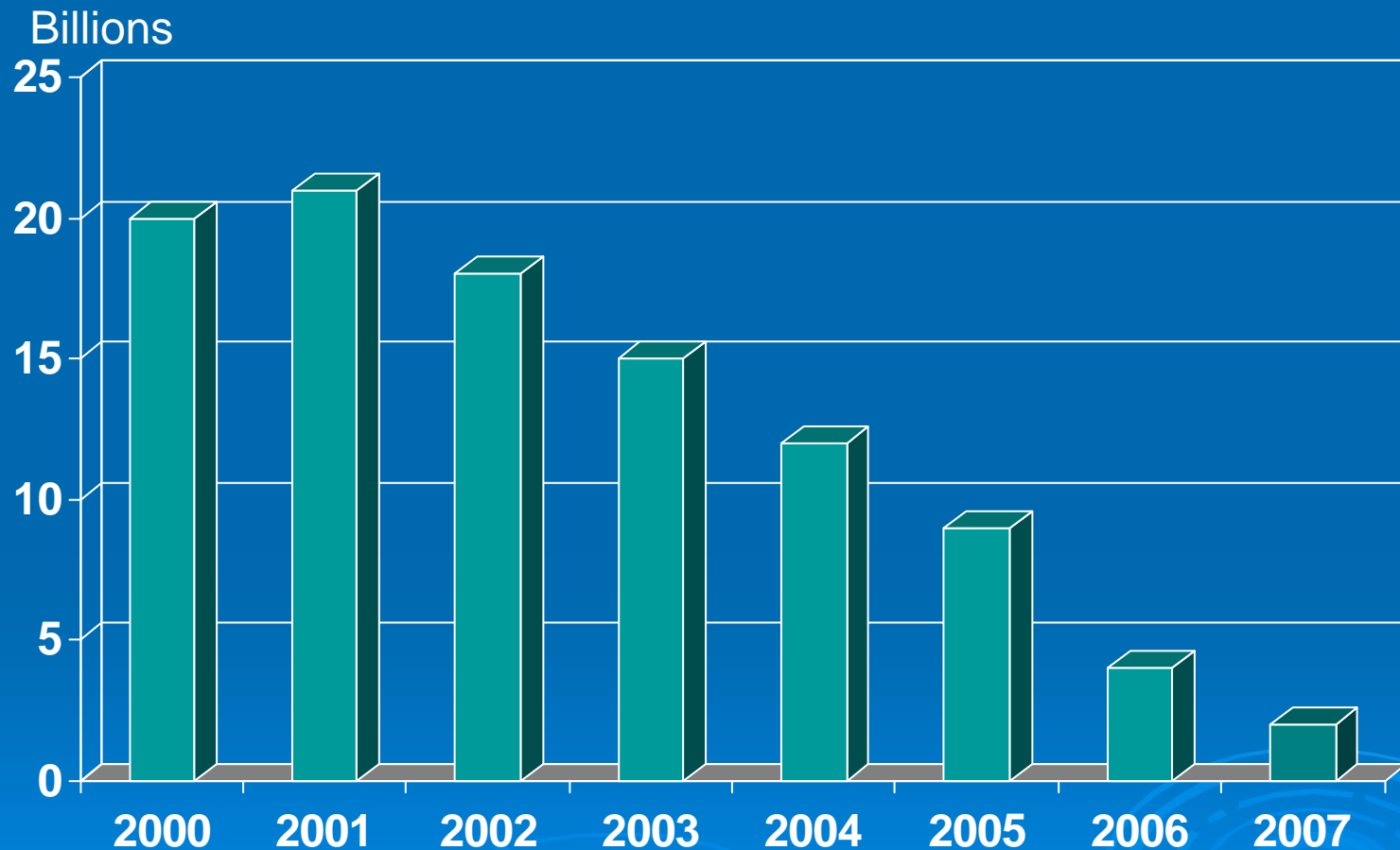
Source: NCCI (2007 preliminary); Med CPI: Economy.com

Lost Time Frequency Continues to Decline



Source: NCCI (2007 preliminary)

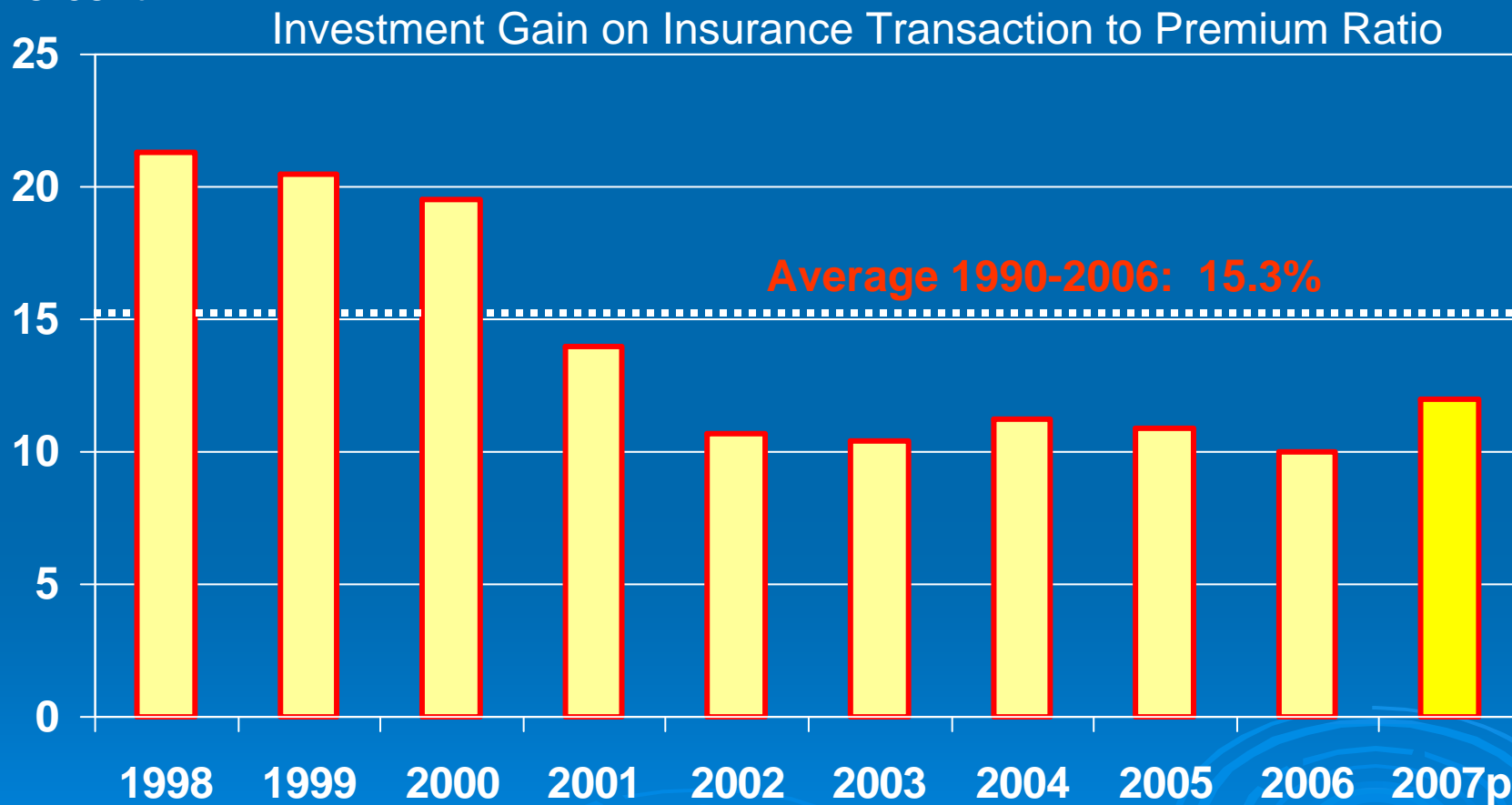
WC Reserve Deficiencies Continue to Decline



The 2007 reserve position is considered fully adequate taking into account allowable discounting of the indemnity reserve of lifetime pension cases. Source: NCCI

WC Low Investment Returns Persist

Percent

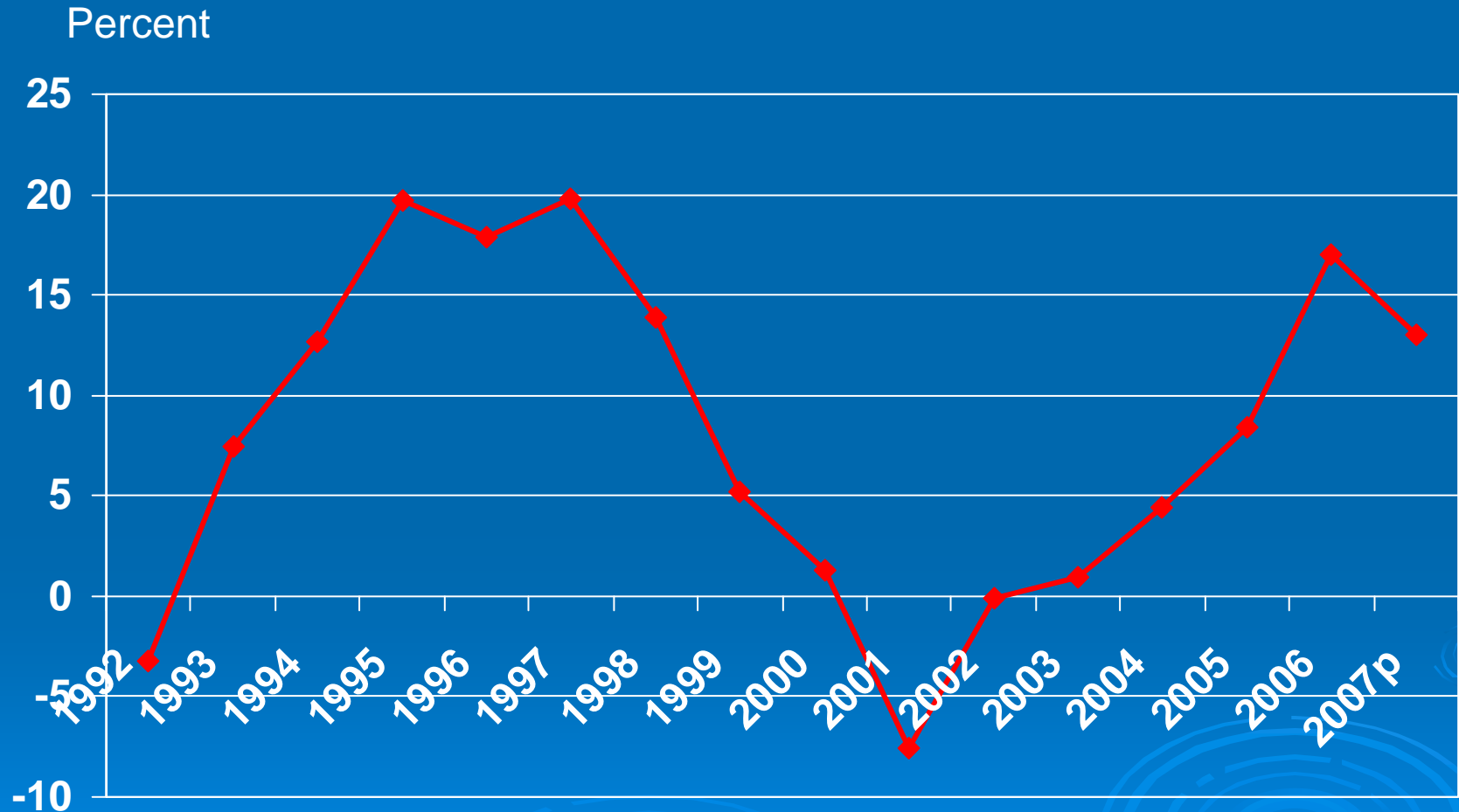


Source: A.M. Best/NCCI (2007 is preliminary)

Private Carriers

Favorable WC Results Continue

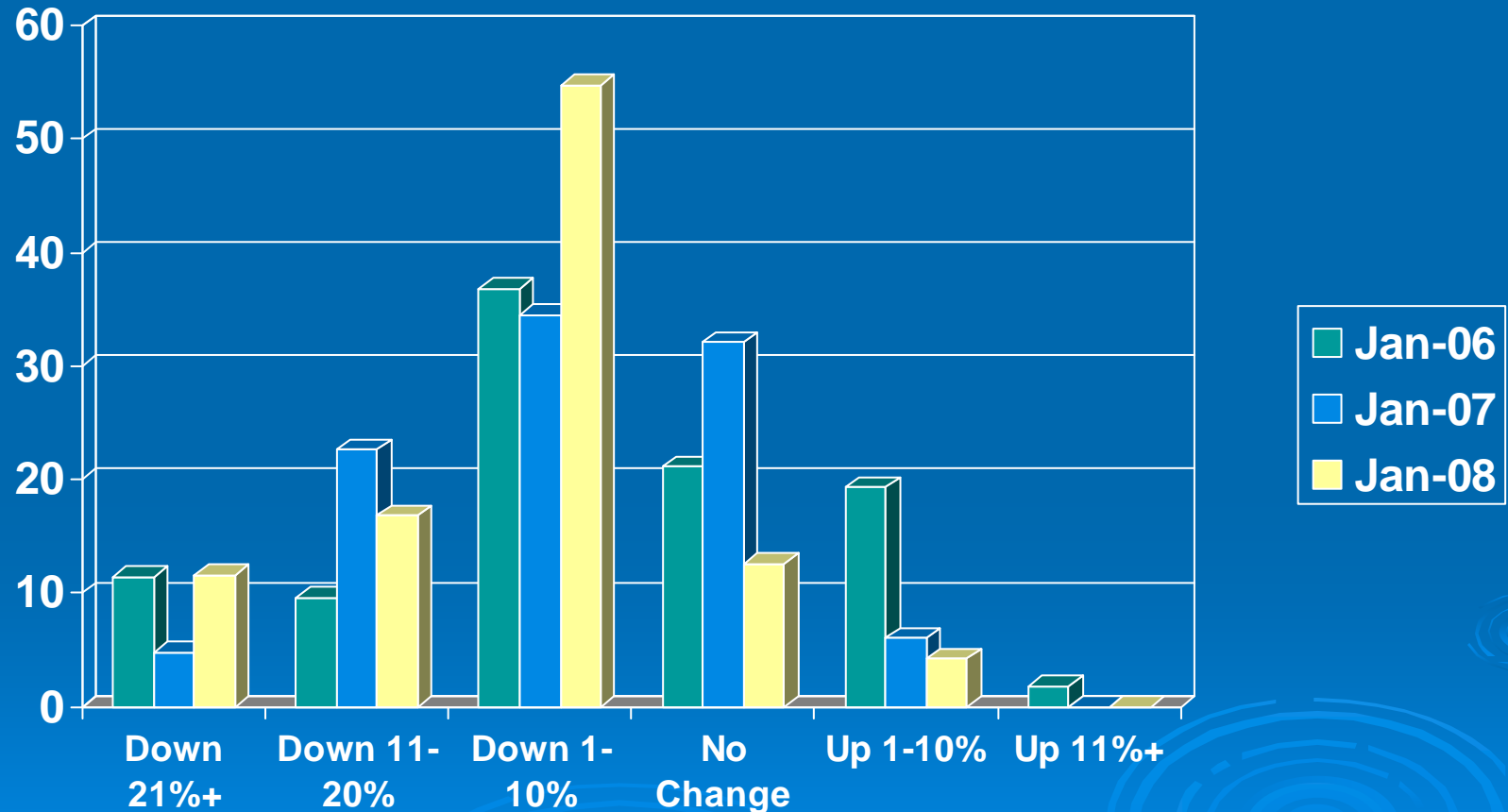
Pre-Tax Operating Gain Ratio – Private Carriers



Source: AM Best (2007 is estimated by NCCI)

According to Goldman Sachs, 83% of Survey Respondents See Declining WC Prices

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior

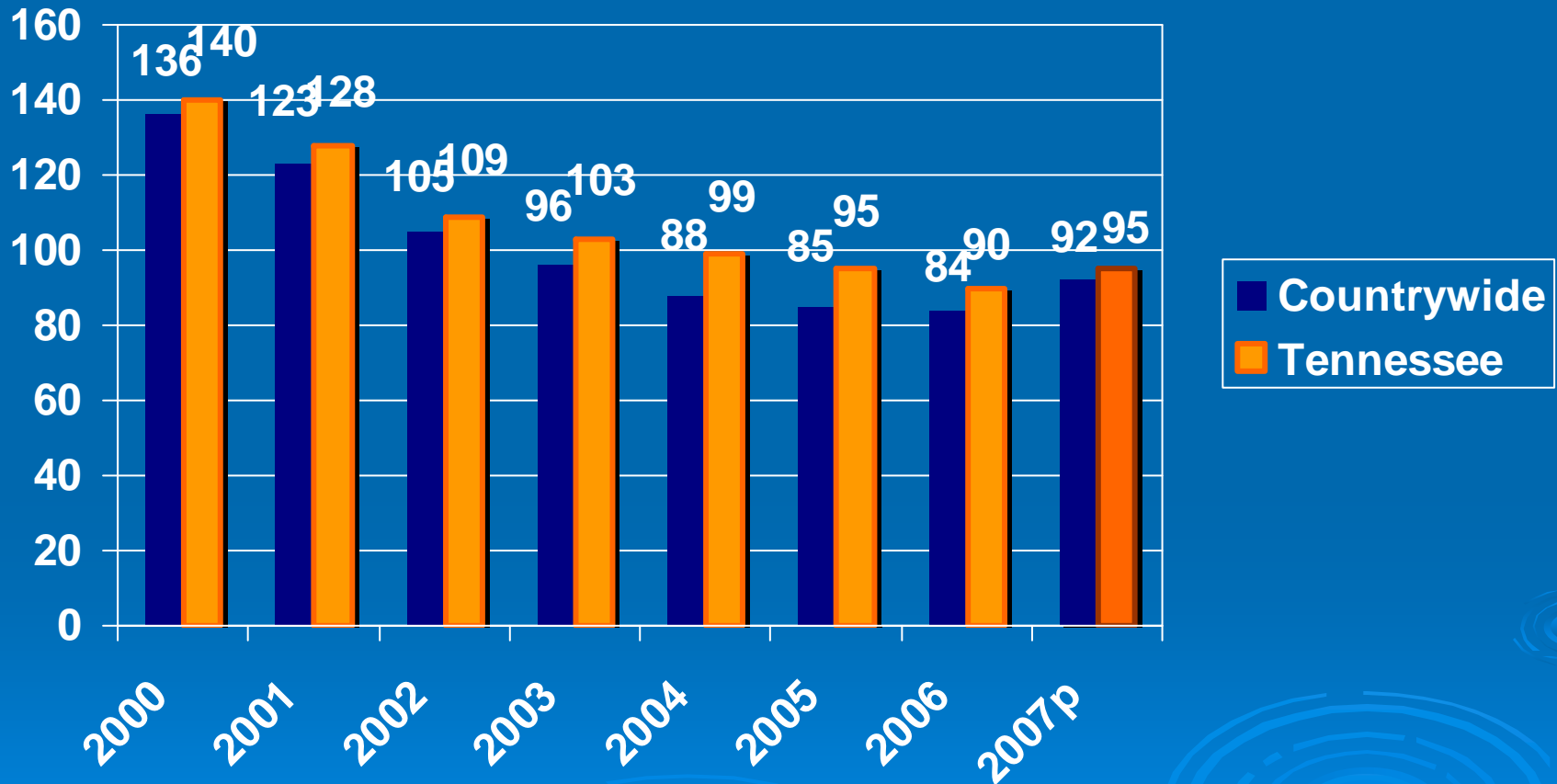


Source: Goldman Sachs Research, "Independent Insight I US Insurance: Non-Life," Proprietary Survey (Exhibit 8, Workers' Compensation, Percentage of Respondents)

Tennessee Specific

Accident Year Combined Ratios

California Driving Countrywide Results



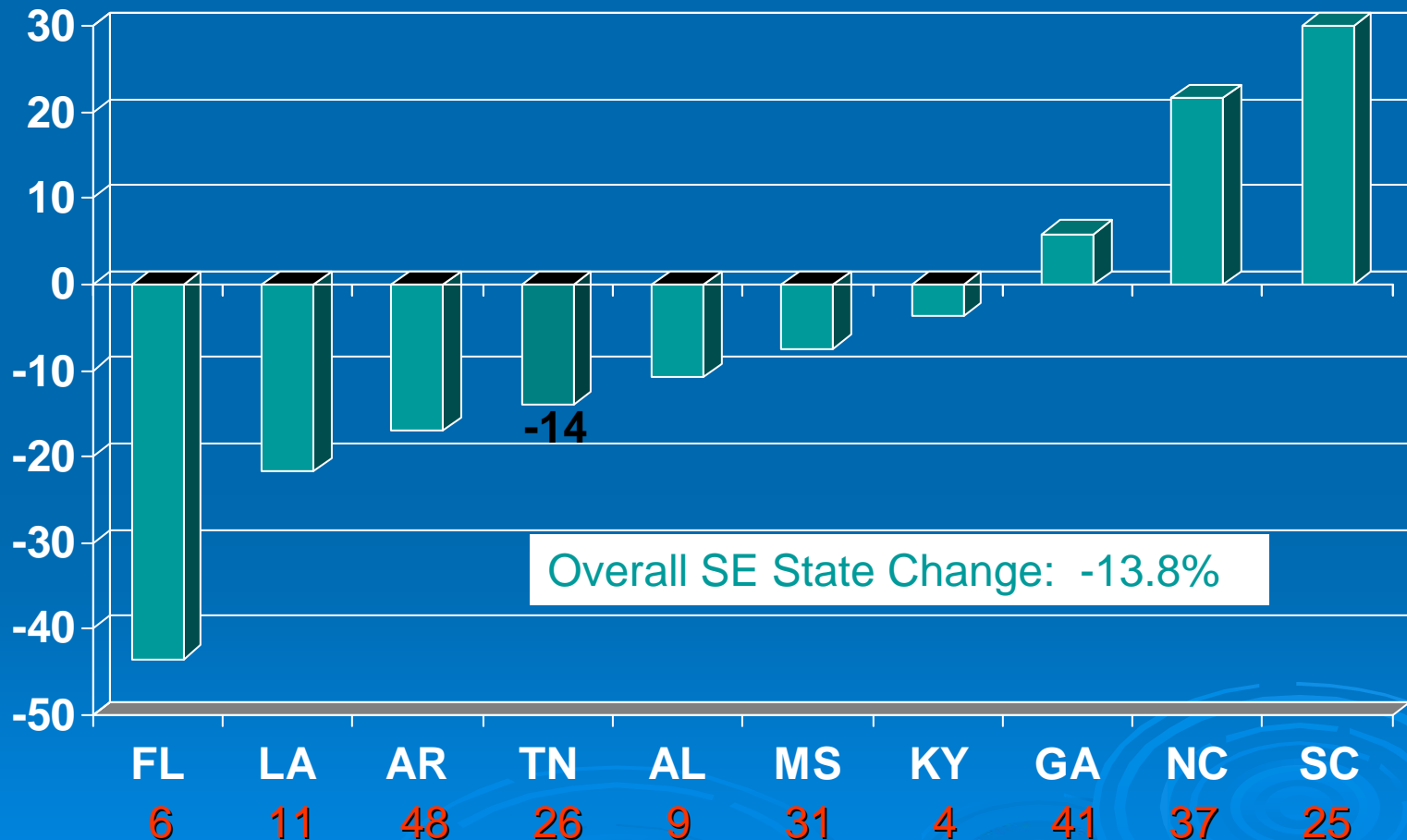
Source: NCCI; 2007 Preliminary; Excluding CA, countrywide results for 2007 is estimated to be 97% for the rest of the country.

Loss Cost Filing & Final Approvals since March 1, 2003

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	Commerce & Insurance Approved Rate	Effective Date
2002	-3.1%	0.0% (with each class code relative to be adjusted accordingly)	0.0% (with each class code relative to be adjusted accordingly)	3/1/2003
2003	+7.9%	+7.9%	+7.9%	3/1/2004
2004	-6.3%	-6.3%	-6.3%	9/1/2004
2005	+3.9%	+3.9%	+3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9% (net -3.3%)	7/1/2005
2006	1.6%	1.6%	1.6%	3/1/2006
2007	1.4%	0%	1.4%	3/1/2007
2007	2.4%	2.4%	2.4%	7/1/2007
2007	-7.2%	-8.6%	-7.2%	3/1/2008
2008	-3.1	-3.1	-3.1	7/1/2008

-14% approved since 9/1/04

Approved Rate/Loss Cost Changes Since 9/1/04 – Southeastern States

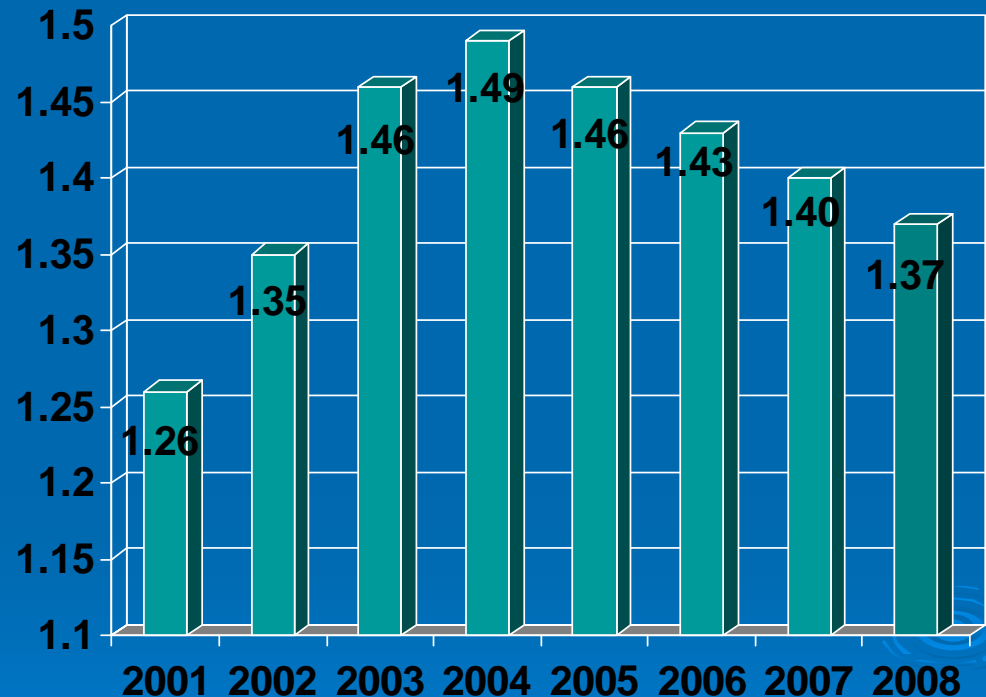


Numbers below state abbreviations represent OR WC Premium Rate

Ranking CY 2006, with 1 being the highest

Tennessee Voluntary Market Loss Cost Multipliers (LCMs)

Steady downward trend in filed LCMs since 2004. Multipliers are based on prior year premium “weighted average” market shares.



2008 LCM Distribution

by Direct Premium Written

Median 1.43

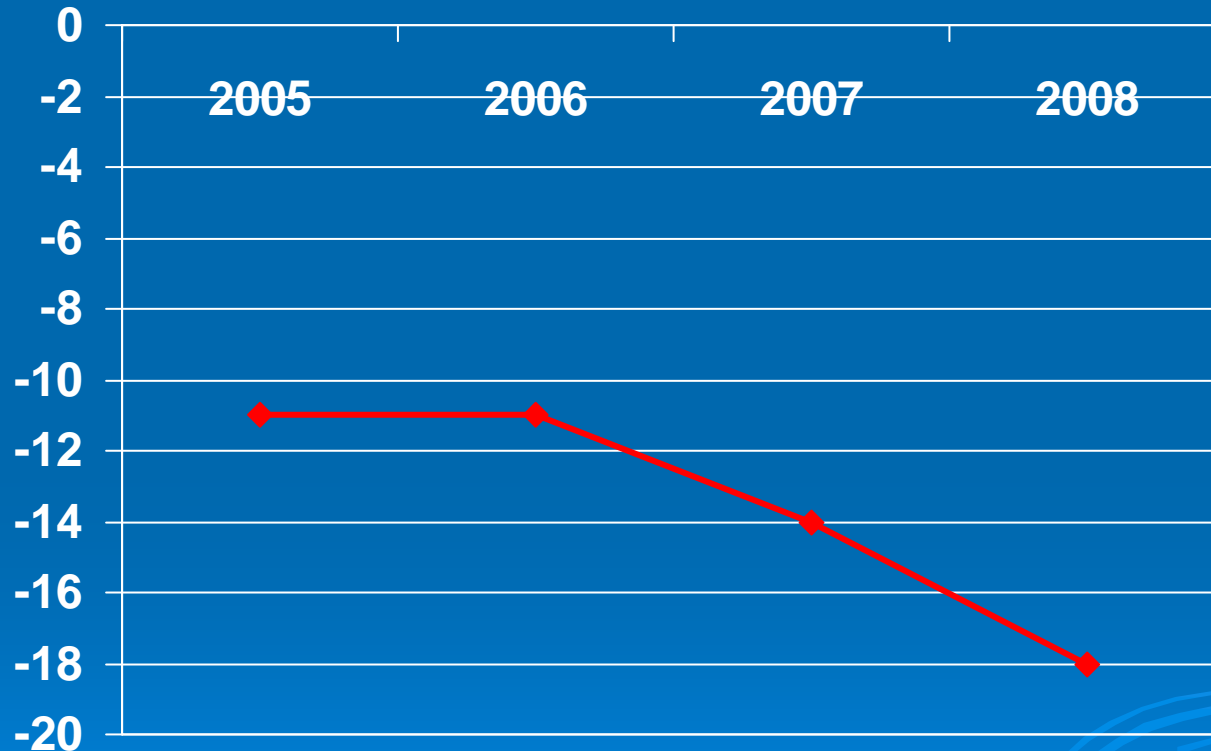


✓ 90% above 1.10

✓ 90% below 1.60

✓ 8% above 1.63 Assigned Risk LCM

Deviation From Loss Costs in TN LCM Filings Based on Prior Year Premium Distribution



Impact of 2004 Reforms on WC Premiums: Estimated \$377m Savings Since 2004

Calendar Yr	Direct Premium Written	Net Estimated Savings*	Annual % Savings
2004	\$883M	\$20M	2.2%
2005	\$943M	\$98M	9.4%
2006	\$947M	\$139M	12.8%
2007	\$947M	\$120M**	11.2%

* Based on loss cost impact

** Preliminary (NCCI study)

Impact of 2004 Reforms on Premium: Other Measures

- 21% drop in loss costs and filed loss cost multipliers since 9/1/04 (year to date)
- 21% drop in average premium per policy of top 10 Tennessee workers' compensation insurers comparing data from 2002-2004, to 2005-2007

Overview of Voluntary Market Conditions

- Profitability continuing in the market; peaked in 2006
- Prices continue to soften
- Investment climate continues to be very weak and turbulent
- Reserve adequacy attained
- Reinsurance catastrophe capacity remains abundant

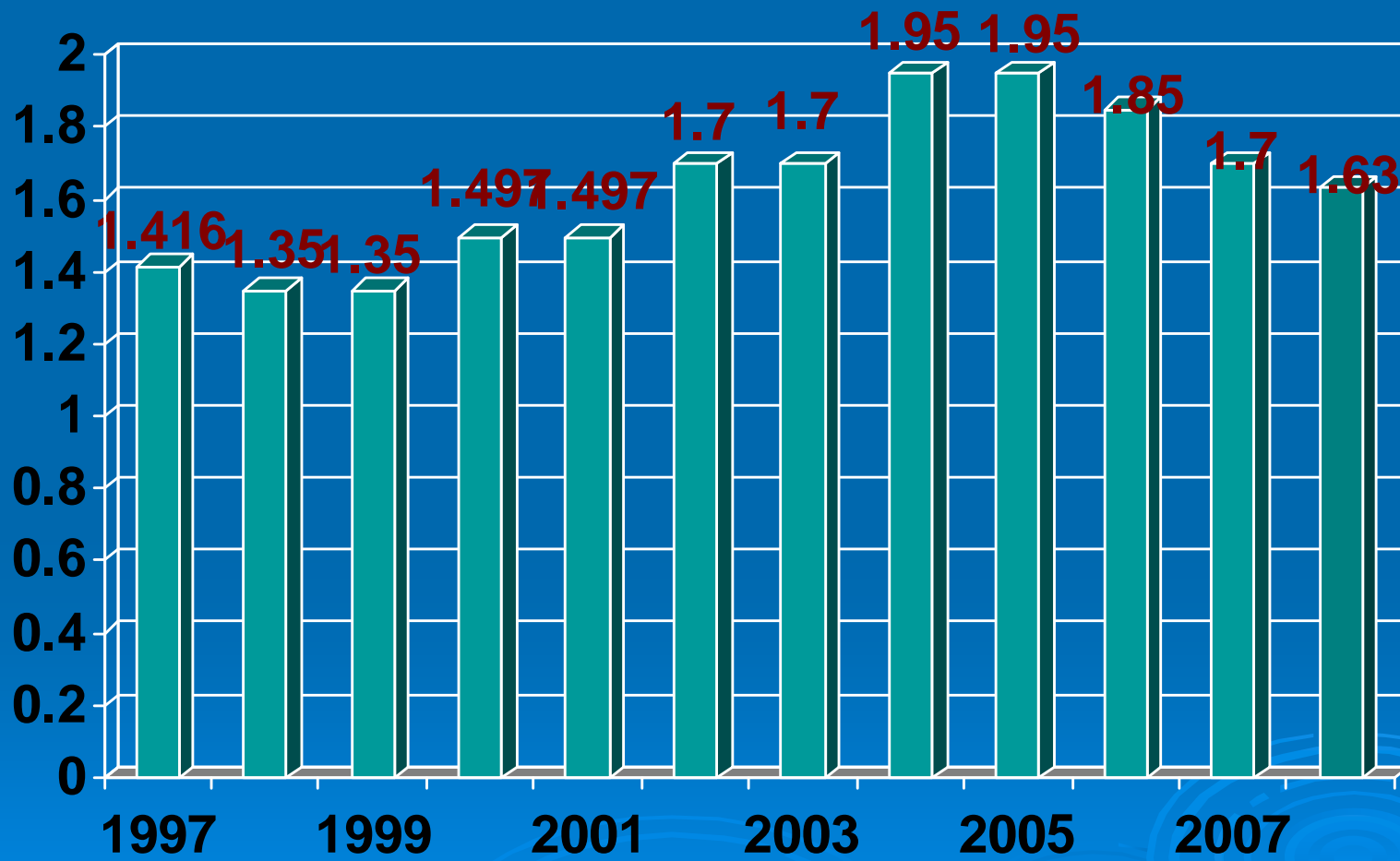
Overview of Voluntary Market Conditions

- Softening to stable reinsurance catastrophe pricing
- Reinsurance terms and conditions improved
- 10 new companies filed LCMs since 11/1/07

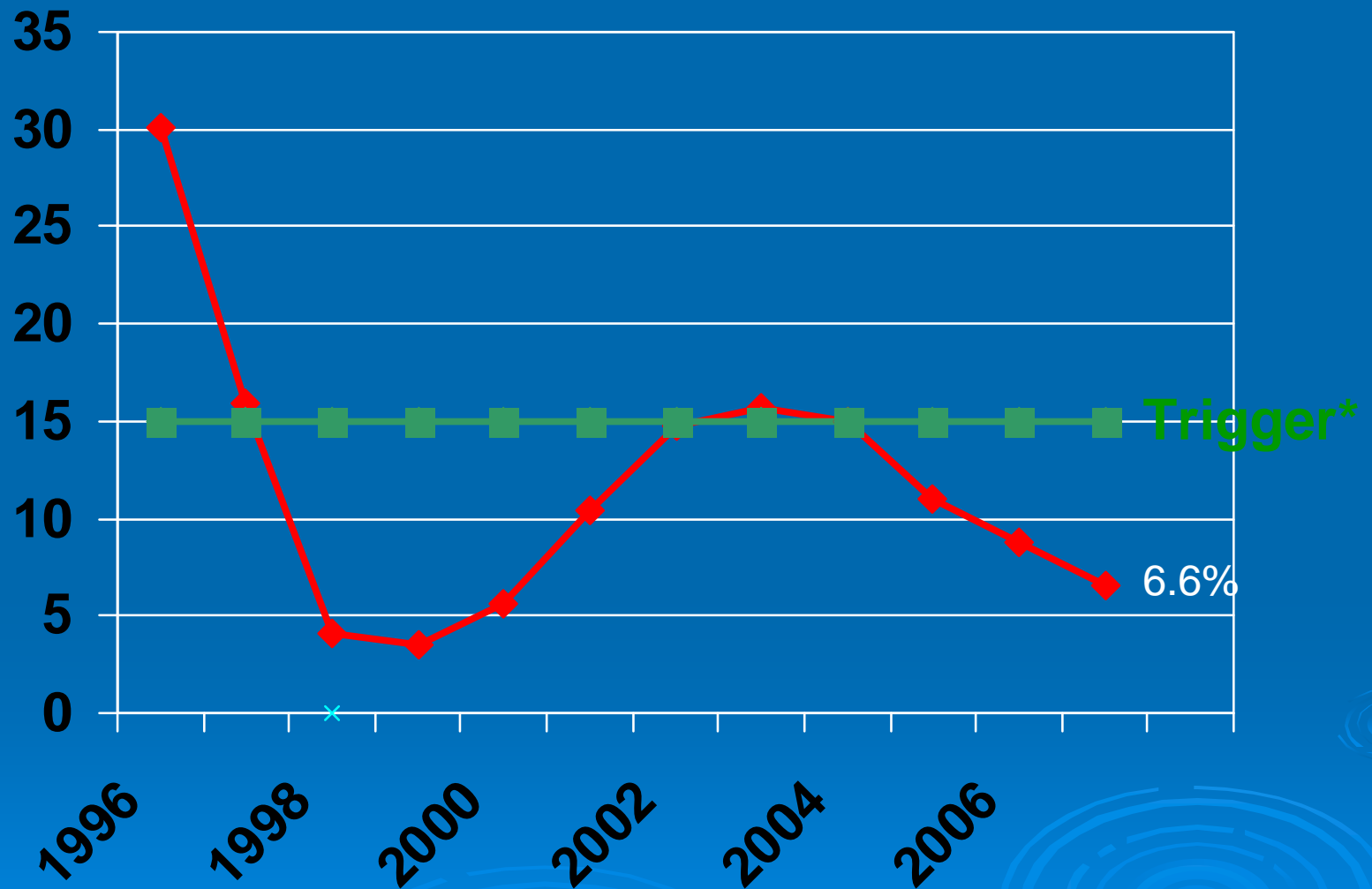
TWCIP

“The Assigned Risk Pool”

Assigned Risk Loss Cost Multiplier History



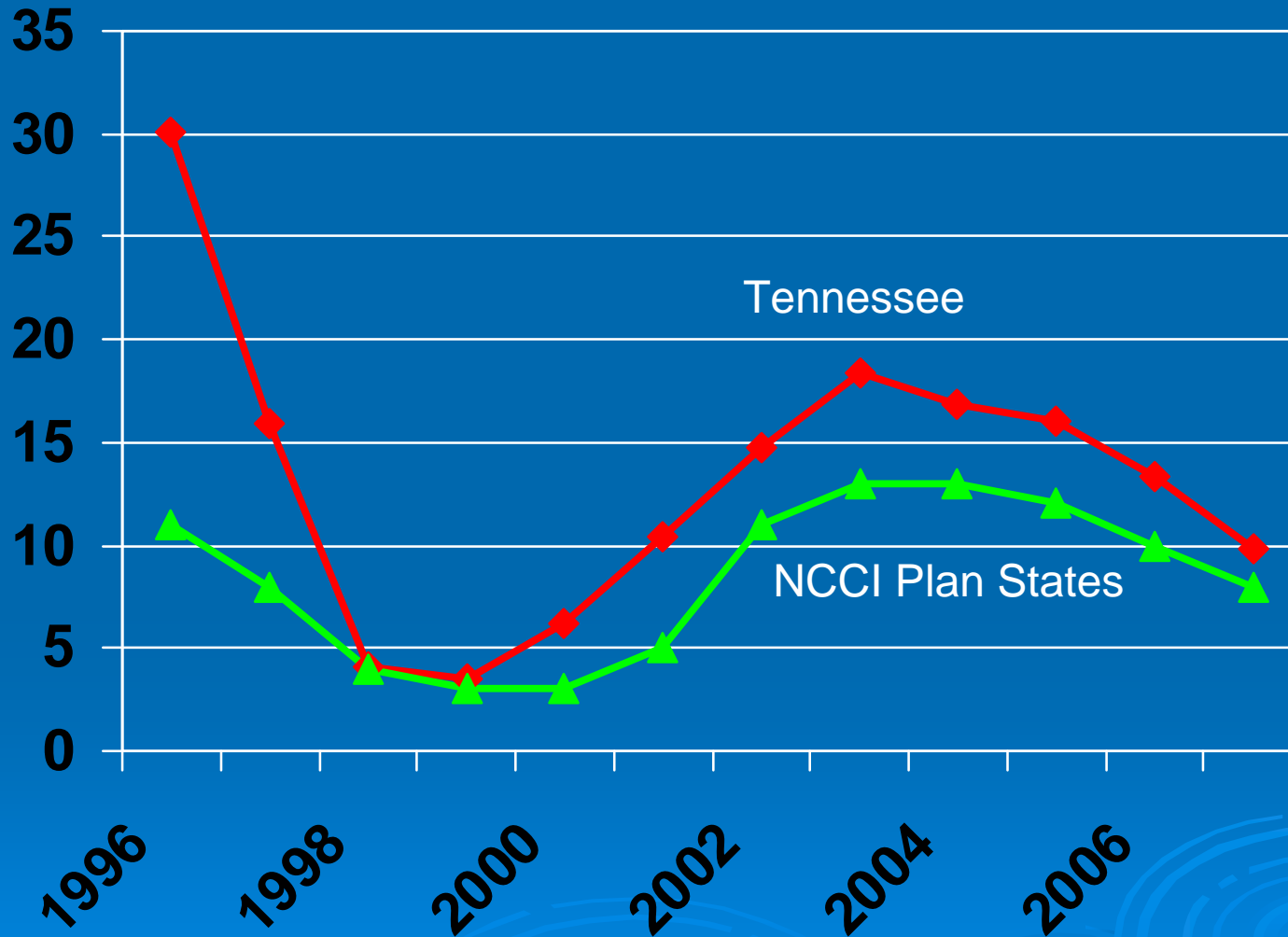
Assigned Risk Market Share - NAIC Direct Premium Written



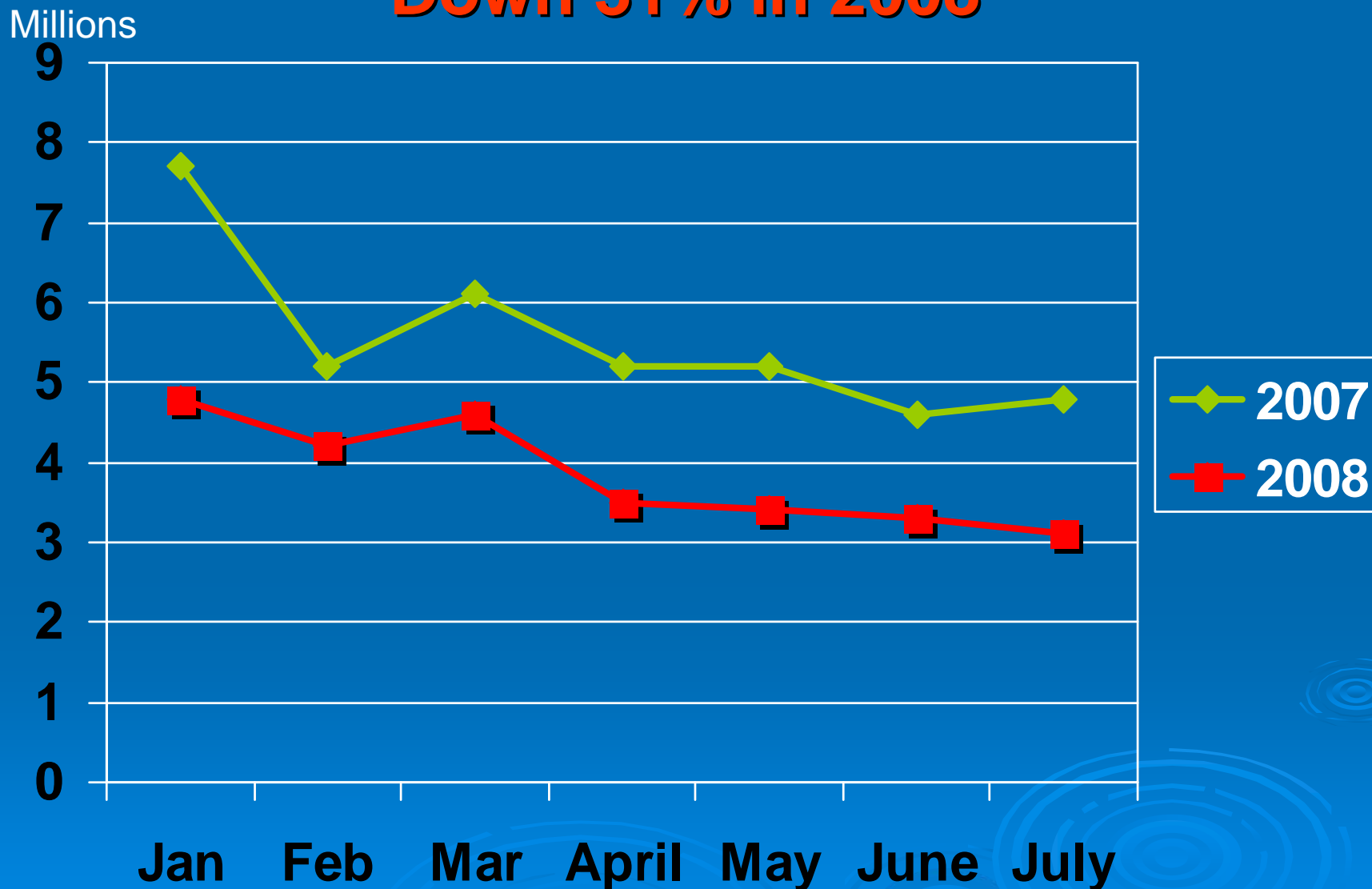
* See 56-5-314 (c) 3.

NCCI Assigned Risk Market Share

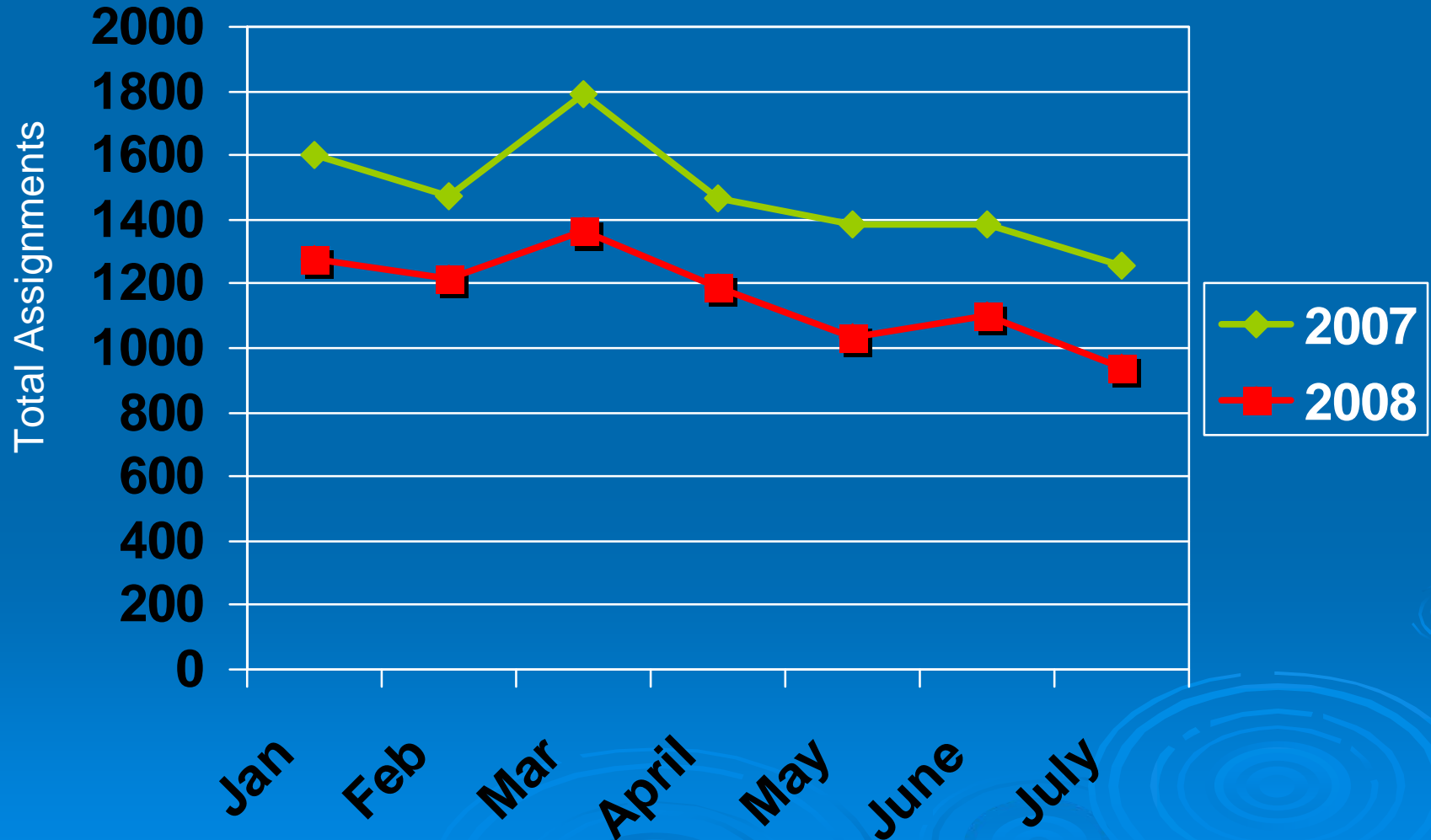
Data Excludes Large Deductibles



Assigned Risk Bookings Continue to Fall Down 31% in 2008



Assigned Risk Policy Count Down 22% in 2007



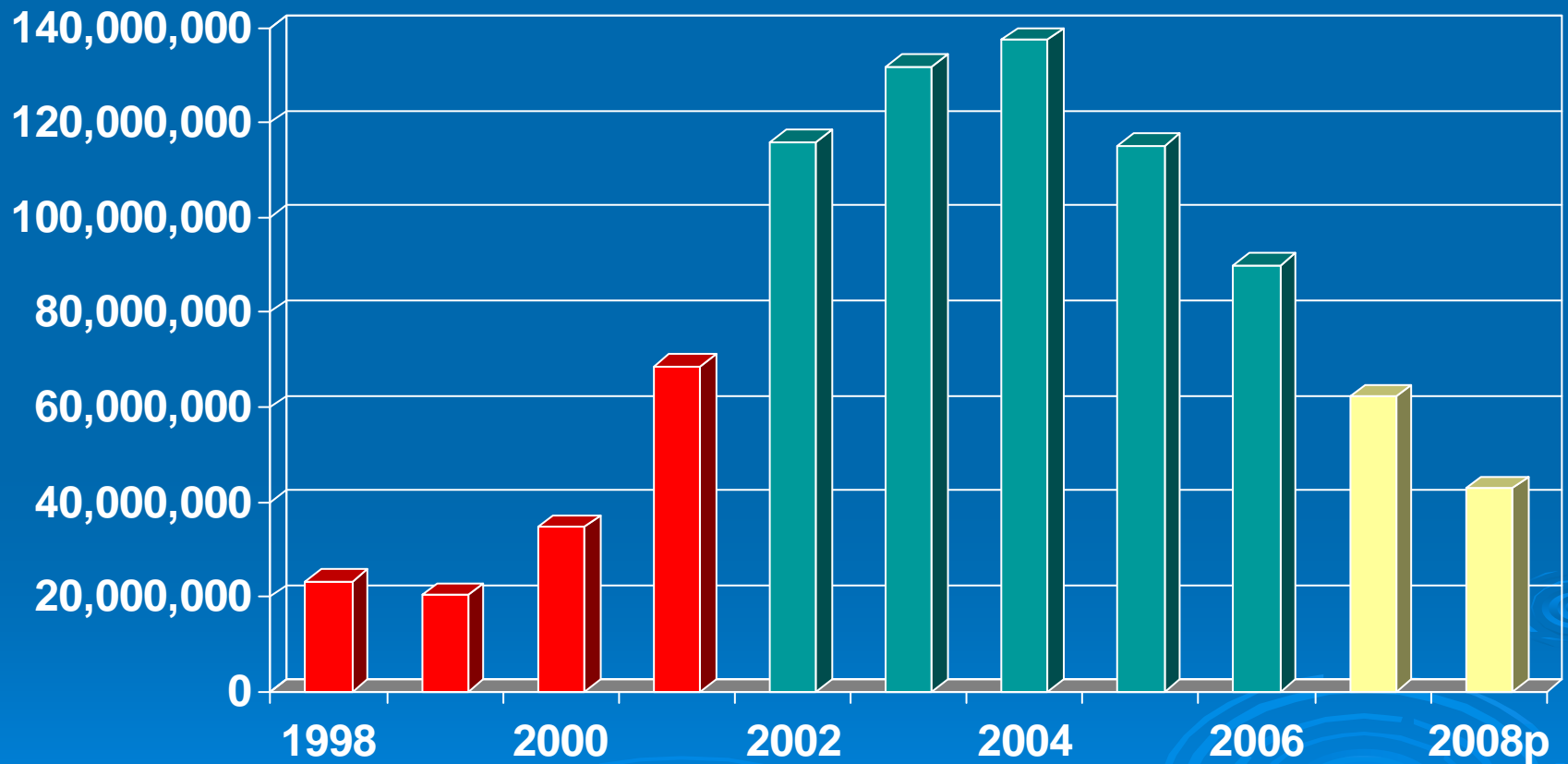
Aon's Actuarial Estimate of Break Even LCM for 3/1/2009

- First year both Servicing Carrier & Direct Assignment Carriers loss data has been used.



- 5.5 points of adverse development contemplated.

Policy Year Written Premium Reported By Aon



Loss ratio leveled to 1.49 LCM is 81% from 1998 - 2001 compared to 70% from 2002 – 2006, revealing impact of adverse selection. 2008 premium is projected based upon mid-year data.

2008 LCM Distribution

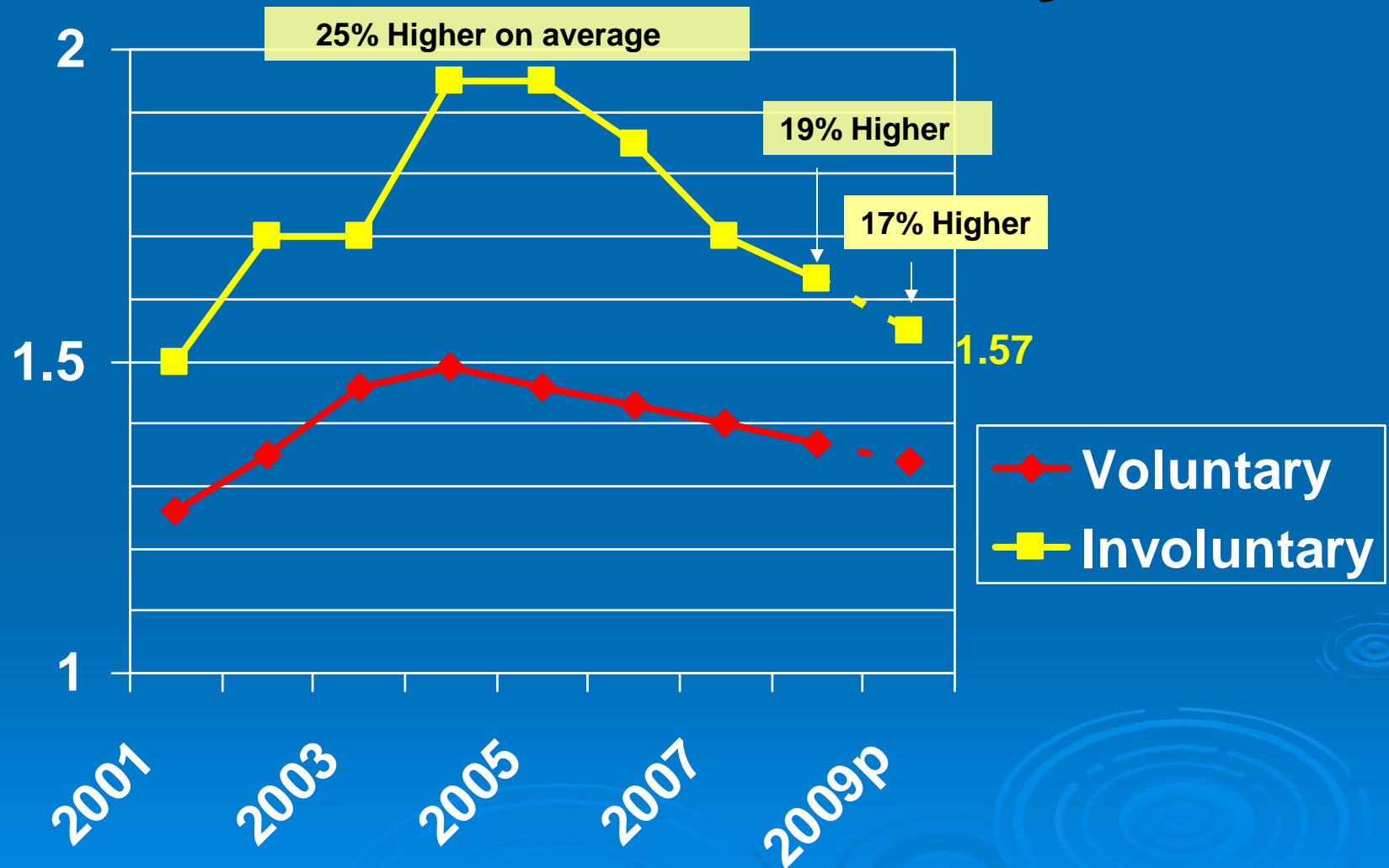
by Direct Premium Written



- ✓ 10.8% of voluntary market have multipliers above 1.57 Assigned Risk LCM

LCM History

TWCIP vs. Voluntary



Voluntary LCM is a Weighted Average; 2009 is preliminary, based on Aon's mid-point.

2007

Self Insurance

List of Self-Insured Groups

Self-Insured Groups	Examinations
Associated Builders & Contractors of TN	Completed August 2006
Comptrust AGC of Tennessee	Scheduled for 2008
Home Builders Association of TN	In Progress/Draft Form
TN Health Care Association	Completed July 2005
TN Automotive Association	Scheduled for 2008
TN Forestry Association	Final, pending Commissioner's signature
TN Association of Business Company Owners' Managed Program	No longer insuring any risk
TN Restaurant Association	In Liquidation
TN Road Builders Association	No longer insuring any risk
TN Trucking Association Self-Insured Group Trust	In Liquidation

Overview of Self-Insurance Market (2007)

- **Self-Insured Employers** – 116
- Number of employees – 273,890
- Total “Premium Equivalent” – \$230 million

- **Self-Insured Groups** – 6
- Number of employees – 48,245
- Total Premium – \$44 million

WC Premium Tax Revenues

	YE 8/31/05	YE 8/31/06	YE 8/31/07
Self Insurance	\$14,605,491	\$11,780,936	\$10,164,858
Insurance	\$30,707,330	\$31,458,936	\$32,789,581
Total Premium Tax*	\$45,312,821	\$43,239,872	\$42,954,439

* Excluding .4% TOSHA Surcharge

Insolvencies

- *Individual carrier data included in this section includes insolvencies over \$1 Million in total losses*

WC Insolvency Data

➤ Reliance Insurance Company (PA domestic)

- Certificate of Authority restricted April 20, 2001
- October 3, 2001 liquidation date
- TN reserves and claims count as of June 30, 2008:
 - **Total number of claims:** 1,746
 - **Total amount paid:** \$31,004,600
 - **Total unpaid claims:** \$28,235,349

WC Insolvency Data

➤ Home Insurance Company (NH Domestic)

- License suspended September 15, 2000
- June 13, 2003 liquidation date
- TN reserves and claims count as of June 30, 2008:
 - **Total number of claims:** **119**
 - **Total amount paid:** **\$ 1,869,907**
 - **Total unpaid claims:** **\$ 3,151,176**

WC Insolvency Data

➤ Reciprocal of America (VA Domestic)

- License revoked July 31, 2003
- June 20, 2003 liquidation date
- TN reserves and claims count as of June 30, 2008
 - **Total number of claims:** 312
 - **Total amount paid:** \$ 1,180,692
 - **Total unpaid claims:** \$ 3,073,692

WC Insolvency Data

➤ Legion & Villanova Ins Co (PA domestics)

- Certificate of authority restricted April 20, 2001
- July 28, 2003 liquidation date
- TN reserves and claims count as of June 30, 2008:
 - **Total number of claims:** 1,869
 - **Total amount paid:** \$32,705,166
 - **Total unpaid claims:** \$24,634,893

WC Insolvency Data

➤ Casualty Reciprocal (MO Domestic)

- Suspended October 22, 2003
- August 18, 2004 liquidation date
- TN reserves and claims count as of June 30, 2008:
 - **Total number of claims:** 51
 - **Total amount paid:** \$ 1,108,501
 - **Total unpaid claims:** \$ 2,061,391

WC Insolvency Data

➤ **Realm National Ins. Co. (NY Domestic)**

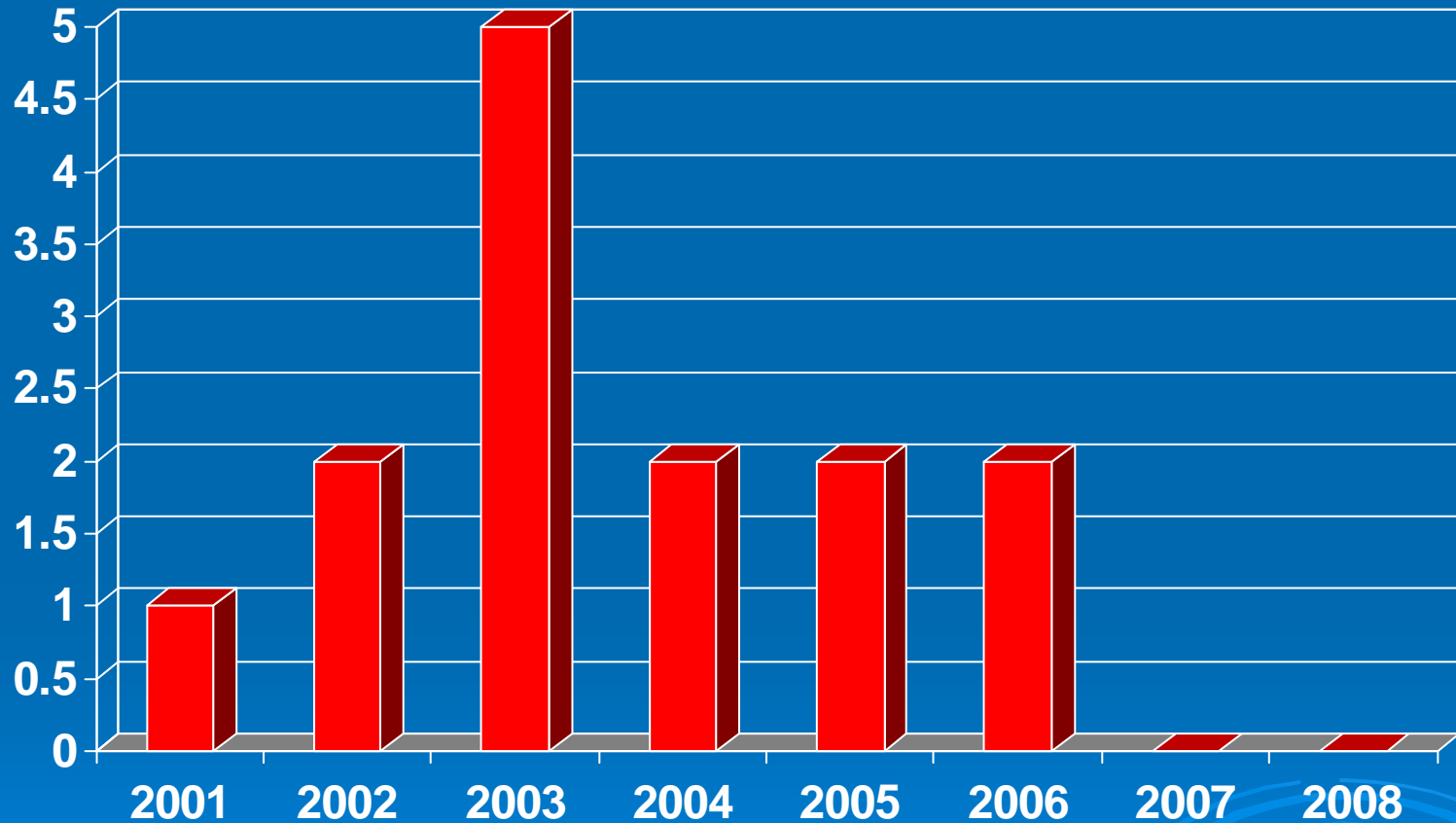
- Suspended March 17, 2004
- June 16, 2005 liquidation date
- TN reserves and claims count as of June 30, 2008:
 - **Total number of claims:** 50
 - **Total amount paid:** \$ 1,263,389
 - **Total unpaid claims:** \$ 2,229,593

WC Insolvency Data

On the radar screen:

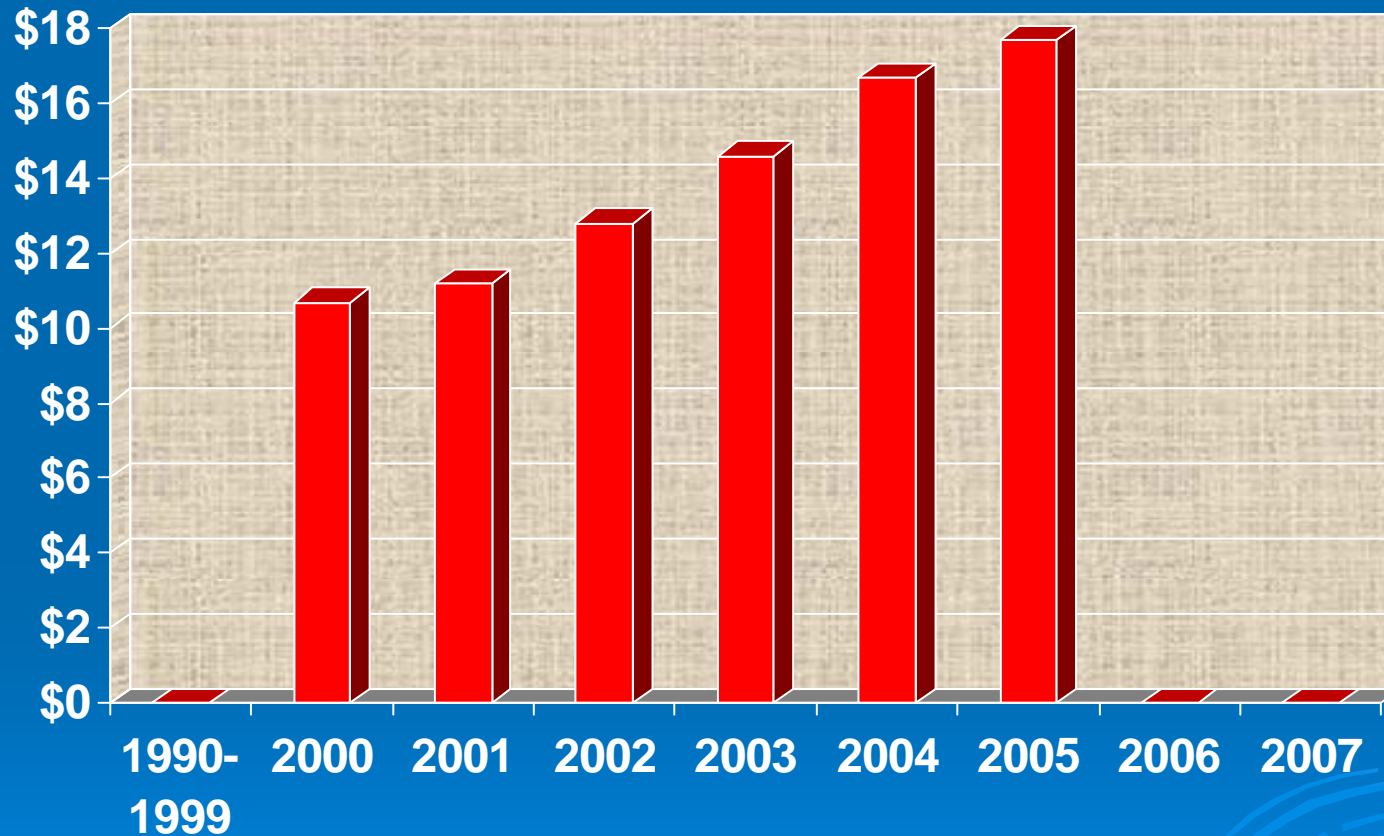
- **Kemper Group (IL Domestic)**
 - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in TN.
 - Premium as of December 31, 2007: \$39,036
 - \$14.6 million in unpaid losses

Number of WC Carrier Insolvencies Per Year



2003 Legion/Villanova combined & shown as one

Guaranty Fund Assessment History (Millions)



TN Trucking Association Self-Insurance Group Trust

- Primarily Operated: 2002 – 2003
- 53 Members
- Petition for liquidation: February 6, 2004
- \$7.8M deficiency – 306 open claims at date of liquidation; currently 50 open claims
- 2 assessments totaling \$7.8M – requiring collection actions, including garnishments are now substantially collected

TN Trucking Association Self-Insurance Group Trust

- The Commissioner (Liquidator) filed a 3rd party complaint against the Trust's former Board of Trustees, the TN Trucking Association, the Trust's former Administrator, its president and executive vice president and the Trust's former TPA.
- The Commissioner (Liquidator) reached comprehensive settlements with the Trust's former TPA and with the Trust's former Board of Trustees.
- The complaint against the TN Trucking Association and the Trust's former administrator was settled.

TN Trucking Association Self-Insurance Group Trust

- Individual directors filed a third-party complaint against the Trust's former TPA. The directors alleged they were beneficiaries of the administrative services agreement between the TPA and the Trust, and that the TPA breached its contract with the Trust.
- Chancery Court dismissed breach of fiduciary duty claims, but allowed the individual directors to proceed with a suit against the TPA for breach of contract and negligence after the Commissioner (as Liquidator) had reached a comprehensive settlement with the TPA on behalf of the Trust.
- A settlement was reached with the former TPA in December 2007.

TN Restaurant Association Self-Insurance Group Trust

- Primarily Operated: 1994 – 2005
- Over 600 Members
- Petition for liquidation: December 9, 2005.
- Court approved a loss portfolio transfer to transfer the injured worker claims out of trust to a viable carrier for premium owed of \$2.1m
- As of July of 2008, the estimated deficiency is approximately 500,000 and involves 116 open claims.
- Presently, 2 assessments totaling \$6.4m, with approximately 50% collected.

Market Summary

POSITIVES

- Results are favorable
- Frequency continues to decline
- 2007 industry reserves considered adequate
- Significant reduction in population of residual market – improving trend to other states

NEGATIVES

- Medical severity continues significant growth
- Low investment returns continue to pressure underwriting results
- Declining underwriting cycle

Workers' Compensation Rules Recently Filed By Commerce and Insurance

Purpose

Summary

and Status

Rating Appeals Before the Commissioner

Chapter 0780-1-82

- Establish procedures for Tennessee policyholders to request a review of the rate application made by a rate service organization or an insurer in compliance with T.C.A. § 56-5-309 (SB 2117).
- Require a rate service organization or an insurer to provide policyholders pertinent information upon receipt of a request for review. The insurer or rate service organization may assess a reasonable charge upon providing the information.
- Establish procedures for the policyholder to appeal an insurer's or rate service organization's application of the rating system to the Commissioner.
- Status: Effective February 24, 2008

Self-Insured Workers' Compensation Pools - Amendments

Chapter 0780-1-54

- Purpose: Address issues which were not addressed in the 2004 amendments, such as financial statements and surplus requirements.
- Requires the pools to report additional financial information.
- Revises the examination procedure.
- Clarifies when a dividend may be declared and when a deficiency must be reported.
- Status: Rulemaking hearing was held on April 24, 2008. The Department is preparing the comments and responses.

Self Insured Workers' Compensation Single Employers - Amendments

Chapter 0780-1-83

- Purpose: Improve the information received by the Department so that the Department can ensure that a self-insuring employer has posted enough security.
- Requires the single employer to submit additional financial information.
- Sets forth the guidelines for the Department to set adequate security amounts.
- Sets forth the guidelines for when a single employer elects to discontinue self-insuring workers' compensation claims.
- Status: Rules were filed on July 31, 2008, with the rulemaking hearing scheduled for September 25, 2008.

Summary: Significant NCCI filings reported quarterly

- **02-TN-2007 and RM-01-TN-2008 – Terrorism Risk Insurance Program Reauthorization Act of 2007** – Updated rules and endorsements to reflect the provisions of TRIPRA, signed into law this past December, effective 1/1/08.
- **B-1406 – Revisions to Basis Manual Classification and Rules** – clarified, discontinued or created certain classifications and rules in the Basic NCCI manual to reflect current business and industry needs of four industries: Horticulture, Fruit Farms, Sugar & Tobacco Manufacturing, effective 3/1/2010.
- **Item 01-TN-2008 & RM-02-TN-2008 — Catastrophe Provisions Miscellaneous Values, Rules, Statistical Codes and Forms** – Updated EQECAT Modeling produced a revised Terrorism miscellaneous value of .01 resulting in an estimated \$6m savings to the system. Renamed DTEC to Catastrophe (other than Certified Acts of Terrorism); effective 9/1/08.
- **Item B-1408 — Revisions to Basic Manual Classifications and Rules** – clarified, discontinued or created certain classifications and rules in the Basic NCCI manual to reflect current business and industry needs of three industries: Child Day Care (including implementing a 2 year transition program), Engineering and Research, and Inventory Counters, effective 3/1/2010.

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Questions?